

Free trade or foul?

The cover-leader in our issue of April 9th examined the question of trade policy and labour standards in developing countries. In an article in the *Washington Post* on May 22nd, Robert Reich, America's labour secretary, attacked our analysis—and bemoaned our lack of concern for the third world's oppressed workers. Here is our reply to Mr Reich

THE debate over labour standards in the third world (and what, if anything, the West should try to do about them) cannot help but be controversial. People in rich countries are rightly appalled by slavery, child labour and other practices no longer tolerated in the industrial countries. They want something done. Governments of poor countries, however, resent interference in such matters. In our leader on this subject, we argued against using trade policy to force change upon offending third-world governments. Mr Reich took offence at that conclusion and at the way we reached it.

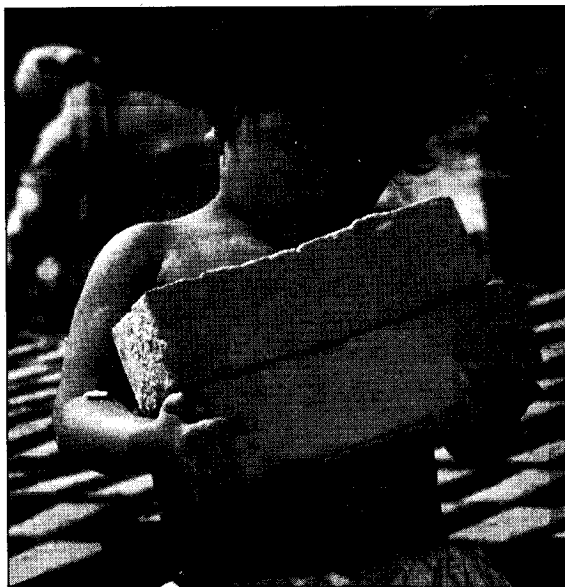
In arriving at his own position, Mr Reich discussed three reasons why the United States might want to take an interest in other countries' labour standards:

- **National security.** Governments that abuse their workers are, some argue, "bad actors" who "will sooner or later threaten global peace". It may be better to bring them into line at once; tolerating wickedness over labour standards only encourages them to be bad citizens in other respects.
- **Economic security.** Poor labour standards in the third world help to keep production costs in those countries low. But America and other civilised places cannot compete with sweatshop labour. In this way, inadequate standards in the third world destroy jobs elsewhere.
- **Humanitarian concerns.** Practices such as slavery, child labour, and suppression of rights to free speech and assembly are all bad things. It is morally wrong for the West to turn a blind eye.

Mr Reich evidently wants *The Economist* to give greater weight to such arguments. This is odd, because he himself seems unconvinced by the first two: in his own article, they are no sooner stated than (all but) withdrawn. Quite right too. The idea that child labour in, say, Bangladesh compromises the national security of the United States is too ridiculous to take seriously. The idea that American workers cannot compete with "sweatshop labour" is not absurd, but it is nonetheless wrong: America's productivity, the highest in the world, makes its wages and labour standards fully competitive.

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The third argument, that slavery and so on are bad things, is true. It has never been denied in these pages. Mr Reich complains of our "laissez-faire dogmatism", and says we "came close" to arguing that the West "shouldn't care how foreign goods are produced—even if workers are chained to their machines", so long as no rules of international trade are broken. The fact is, we explicitly argued not



merely that the West ought to care, but also that it has a legitimate interest in exerting pressure on third-world governments to curb the worst abuses.

We did propose, however, that such pressure should meet two tests. First, it should stand a good chance of being effective. Second, it should not jeopardise other goals, especially that of reducing poverty in the developing countries. We concluded that trade policy (only one of the ways in which the West might exert pressure) might sometimes pass the first test, but that it failed the second.

The avowedly pragmatic Mr Reich has little to say about this. He talks briefly and vaguely about "international action", meaning trade sanctions. Ideally "authorised and implemented multilaterally", these would punish countries where "the

core labour standards that define a civilised economy are violated, or where low labour standards persist despite economic growth, and where the feebleness of democratic institutions gives grounds for belief that living standards are suppressed by policy, not poverty."

Conceived this way, Mr Reich's proposal would fail even to achieve its narrow objective. No consensus for multilateral action of this kind exists, nor will it in the foreseeable future. Right or wrong, third-world governments will reject Mr Reich's criteria.

If multilateral action is ruled out, this leaves the United States to act unilaterally or in concert with some other (mainly rich) countries. Possibly, trade sanctions in these circumstances might change labour standards here and there, and do some good. Certainly, any such benefit would be greatly outweighed by more widespread harm. Why? Because trade policy is hopelessly ill-suited to the tasks that Mr Reich would have it do.

More than any other sort of economic policy, trade policy is prone to capture by narrow interests. The pressure to protect domestic producers from foreign competition is intense and relentless. A new set of excuses for protection against imports from the third world (under Mr Reich's criteria, the list, written out in full, would be the most contentious and extensive ever devised) is certain to mean higher trade barriers and less trade, not just for the worst offenders on labour standards, but for others too.

The danger does not stop there.

The present arrangements for preserving and extending liberal trade depend on consensus. Mr Reich seems ready to see these arrangements break down. If that happened, the cost would be enormous—above all, for the poorest people in the poorest countries, whose best hope of a less miserable life rests on the economic growth that comes with trade.

In a telling phrase, Mr Reich argues that "the improvement of labour conditions as developing countries grow richer advances America's moral agenda and our economic interests at the same time". We purveyors of laissez-faire dogma see things differently. In our view, the improvement of labour (and other) conditions as countries grow richer is a good thing in itself. Mr Reich's arguments would best be ignored, except that they put this goal in danger.